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1 MR. RYAN: Objection.
 2 A. There is a difference there. And
 3 there's a percentage difference, yes, sizable
 4 percentage difference.
 5 What I'm struggling with is on this
 6 page 16, if that allowance percentage is the
 7 contractual allowance percentage or the bad
 8 debt reserve percentage.
 9 Q. All right. Let me see if I can
 10 help you with that. Why don't we go to
 11 page 22. This is a listing for the Patcom
 12 receivables.
 13 A. What page?
 14 Q. Page 22.
 15 A. Okay.
 16 Q. This appears to me at least, and
 17 correct me if I'm wrong, if appears to be a
 18 listing of the outpatient receivables at Elkins
 19 residing in the Patcom system.
 20 A. Right.
 21 Q. Right? And then there's a little
 22 handwritten note that --
 23 A. That's mine.
 24 Q. -- looks like your handwriting.
 25 And I think it says, gives before contractual.

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1 next schedule, what you were referring to as
 2 contractual allowance for these accounts, at
 3 least the outpatient accounts?
 4 MR. RYAN: Objection.
 5 A. What that reimbursement percentage
 6 indicates, I believe, is that of the gross --
 7 of receivable balance, the gross receivable
 8 balance, I guess, is a million 022. I'm
 9 looking in the 181 to 360 category. The
 10 reimbursement percentage was 49 percent, so the
 11 bad debt reserve percentage, I guess, would be
 12 51 percent, which would be a hundred less 49.
 13 Q. Well, the net -- what do you mean
 14 by the bad debt reserve percentage? This
 15 51 percent?
 16 A. A hundred less the 49.
 17 Q. Isn't the net accounts receivable
 18 the 51 percent, right, if you minus 49 percent?
 19 MR. RYAN: Objection.
 20 A. Give me a couple minutes to figure
 21 out the schedules.
 22 MR. TORBORG: What's the nature of
 23 the objection?
 24 MR. RYAN: Would you read the
 25 question back, please?

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1 A. No. Gross.
 2 Q. Okay. I'm sorry. Gross before
 3 contractals, refer to following schedule for,
 4 is that CA?
 5 A. No. For AR.
 6 Q. For AR.
 7 A. Net of after contractals.
 8 Q. Yes. Now, why don't we go to the
 9 following schedule, which I think you'll see on
 10 page 25. Actually, page 26.
 11 A. 25.
 12 Q. This is titled Net Outpatient
 13 Accounts Receivable, right?
 14 A. Yes.
 15 Q. And here, this is net of gross,
 16 right?
 17 A. Net of contractals.
 18 Q. So on this schedule you have
 19 reduced it by any contractual amounts, right?
 20 A. That's my understanding, yes.
 21 Q. And in there, in that schedule, you
 22 have something titled Reimbursement Percentage?
 23 A. Yes.
 24 Q. Right? Does that appear to be,
 25 based your review of the gross schedule, the

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1 (Record repeated.)
 2 MR. RYAN: I think you stated it
 3 the opposite way from what it is. I think what
 4 you referred to as the net accounts receivable
 5 is in fact the contractual allowance. So
 6 that's why I objected.
 7 MR. TORBORG: I think you're right.
 8 Q. So the net amount collectible would
 9 be the 49 percent?
 10 A. Right.
 11 Q. That's what you're getting
 12 reimbursed by?
 13 A. Right.
 14 Q. So that would be the net
 15 receivable, right?
 16 A. Right.
 17 Q. So the contractual allowance would
 18 actually be 51 percent?
 19 A. Right.
 20 Q. Right?
 21 A. I think so.
 22 Q. Okay. Now, if you look at the
 23 previous schedule, you see the same terminology
 24 I was asking you about before with regard to
 25 inpatient accounts, allowance percent.

32 (Pages 435 to 438)

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1 Does going through this exercise
 2 allow you to infer that the allowance percent
 3 listed both on page 22, for the gross
 4 outpatient accounts, and page 16, on the
 5 inpatient accounts, to be what the bad debt
 6 reserve percentage was?
 7 A. No, I don't think that's the case.
 8 Q. Why not?
 9 A. Let me see if I can figure out
 10 these schedules.
 11 Q. Let me help you out. Why don't we
 12 take the first page. It's been a while
 13 since -- okay. First page of this schedule. I
 14 think I can make it real easy for you.
 15 A. Okay.
 16 Q. Page 1, see where it says, adjusted
 17 inpatient required allowance for Elkins Park.
 18 A. Yes.
 19 Q. Patcom reserves, 983,000 and
 20 change, right?
 21 A. Right.
 22 Q. Okay. Now, let's go to page 18 of
 23 27. Do you see toward the bottom right corner
 24 the figure 983,000 and change?
 25 A. Yes.

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1 the reserve methodology amongst the hospitals
 2 were different. So I guess, yeah, it would
 3 have been part of that type of discussion.
 4 Q. Okay. Do you recall having similar
 5 conversations with anyone from Coopers during
 6 the 1996 audit?
 7 A. I can't remember specifically.
 8 There very well may have been. Certainly they
 9 were looking at this. They were looking at the
 10 Patcom receivables. I remember, you know,
 11 Patcom receivables were a topic of discussion.
 12 So I mean it certainly could have come up
 13 during the course of that audit, sure.
 14 Q. Why were the Patcom -- why do you
 15 specifically remember the topic of the Patcom
 16 receivables coming up?
 17 A. Because we had converted the
 18 billing system. We went from the Patcom system
 19 to the Envision system. So is there was
 20 receivables still outstanding on the Patcom
 21 system that were still out there at the time of
 22 the audit that, you know, some of which were
 23 relatively old, so there was an issue of how
 24 much would we ultimately collect on those
 25 receivables.

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1 Q. Now, did that allow you to infer
 2 that the bad debt reserve percentage,
 3 percentages, let's just stay with the specific,
 4 allow you to infer that the allowance percent
 5 listed of 20 percent for the Blue Cross
 6 accounts over 360 days in the Patcom system is
 7 the bad debt reserve percentage?
 8 A. Looks like the Blue Cross -- what
 9 age category?
 10 Q. 360 days.
 11 A. Looks like it would be 20.
 12 Q. All right. So that's the bad debt
 13 reserve percentage. So, in fact, we are
 14 comparing the same thing, are we not, when we
 15 compared the 20 percent and the 70 percent on
 16 page 4?
 17 A. I think so.
 18 Q. Do you recall any discussions
 19 within AHERF regarding the differences in the
 20 reserve percentages that were applied from
 21 Patcom receivables versus the Envision
 22 receivables?
 23 A. Yeah, I mean I guess. I think it
 24 related to I guess back to what we talked about
 25 a number of different times this morning, that

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1 Q. Do you recall any general
 2 conversations that were specific to the issue
 3 of the adequacy of the reserve percentages on
 4 the Patcom balances?
 5 A. There could have been. I'm sure
 6 there was. I can't recall any specific
 7 conversations today.
 8 Q. Let me back up and ask a little
 9 broader question. When you were at Coopers
 10 auditing the area of bad debt reserves, the
 11 adequacy of bad debt reserves, how would you go
 12 about assessing the reasonableness of the
 13 client's total balance?
 14 A. Well, there's a number of ways,
 15 there's a number of different audit procedures
 16 that the firm had established that you should
 17 follow to try to get comfortable with the
 18 adequacy.
 19 But one of the things you look at
 20 is how old the receivables are, what the
 21 reserve percentages are. And you could look at
 22 subsequent receipts, cash that came in the
 23 door.
 24 After, you know, the end of the
 25 client's fiscal year to see if, you know, based

33 (Pages 439 to 442)

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1 on the cash that was coming in, whether the net
2 receivables that were out there at the time you
3 were auditing seemed to make sense or not.

4 Q. I think you included in that list
5 looking at the reserve percentages.

6 A. Yes.

7 Q. Is a standard audit step, to the
8 best of your knowledge, at Coopers in assessing
9 the adequacy of the clients's bad debt reserves
10 specifically reviewing the reserve percentages?

11 MR. RYAN: Objection.

12 A. I don't think you can say there's a
13 standard audit step for every client. But my
14 experience is with, you know, the hospital
15 clients, is, sure, you look at the reserve
16 percentages. Whether it's a standard required
17 step of the firm, I can't say that.

18 Q. Now, when you were at Coopers and
19 you wanted to assess the reasonableness of the
20 client's bad debt reserves, you didn't have
21 time to go through every single account
22 receivable on those hospitals' books, right?

23 A. That's correct.

24 Q. So you would have to take audit
25 steps short of that to make you comfortable

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1 Again, the timing is always an
2 issue, how -- when you're issuing your audit
3 report and whether -- if you issue your audit
4 report, you know, a month after the client's
5 fiscal year end, probably most of the
6 receivables wouldn't be collected within that
7 month after year end.

8 So a lot of times, you know, an
9 accounting firm issues opinions relatively
10 quick after a client's fiscal year. They do
11 other type of system testing throughout the
12 course of the year to get comfortable with the
13 system and the processes as opposed to trying
14 to vouch cash receipts that came in after the
15 year end.

16 Q. Would the subsequent receipts test
17 be typically broken down by the various payors
18 and by the age of the accounts?

19 A. It can be. You know, it depends on
20 how extensive a test you want to do, what data
21 is available from the company.

22 Q. Do you recall whether during the
23 1994 audit of AHERF, whether any members of the
24 Coopers audit team performed any sorts of
25 subsequent receipts test for the DVOG

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1 with the adequacy of the reserves, right?

2 A. Yes.

3 Q. Is one of those steps looking to
4 reserve percentages?

5 MR. RYAN: Objection.

6 A. It can be.

7 Q. Does it -- I already asked that
8 one.

9 You also said something about a
10 subsequent receipts test?

11 A. Yes.

12 Q. What can you tell me about that?

13 A. Well, if your balance sheet shows
14 that you have a million dollars of receivables,
15 say as an example, in June of '96, and say
16 through October of '96 you've collected, you
17 know, 950,000 of the million dollars. That's a
18 pretty good indicator that with the receivable
19 balance that you had out there in June is
20 probably reasonable.

21 If you collected zero, that would
22 probably be a pretty good indicator that might
23 not be good, that million dollar balance. So
24 that's what a lot of times you'll try to do as
25 an auditor.

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1 receivables?

2 A. I can't say for certain. We may
3 have done a little bit. I mean that was a
4 step, depending on the hospital, or even
5 doesn't have to be a hospital, it could be any
6 client, again, it depends on the type of issues
7 that are out there.

8 If you think receivables are a
9 problem, you might do subsequent receipts
10 testing, because you're trying to get a little
11 bit more comfortable that the number is okay.

12 If you issue -- you know, there's a
13 lot of public companies, you know, that issue
14 their financial statements a couple weeks after
15 year end. Like someone might be a December 31
16 year end, they issue their financial statements
17 January 10. You're not going to get subsequent
18 receipts, so you go to other procedures to get
19 comfortable that the receivable balances would
20 be okay.

21 So as far as the '94 audit, we may
22 have done some. You would have to look in the
23 work papers.

24 Q. You referred to earlier your
25 perception that Coopers did extensive testing

34 (Pages 443 to 446)

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1 In the first page --
 2 Q. We don't need to go through the
 3 first page.
 4 As you might guess, I'm just going
 5 to ask you about the last segment, the last
 6 item, uncollectable Patcom accounts,
 7 25 million.
 8 A. Yes.
 9 Q. I assume that's millions, right?
 10 A. Yes.
 11 Q. What is your -- first of all, given
 12 the issues on here, do you have any idea what
 13 fiscal year this relates to?
 14 A. I think it was '96.
 15 Q. Now, were there any Patcom accounts
 16 left at the end of fiscal year '97?
 17 A. You mean '6?
 18 Q. '97.
 19 A. '97?
 20 Q. Yeah. So that we can establish
 21 that it's not '97.
 22 A. There could have been, but I
 23 thought most of those had been written off at
 24 that point.
 25 Q. So most likely this is dealing with

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1 at. Maybe it was half of the Patcom accounts,
 2 maybe it was 25 percent. I don't remember.
 3 Q. Do you recall discussing with
 4 anyone from Coopers during the '96 audit any
 5 sort of quantification of the level that the
 6 Patcom receivables may be on the reserve?
 7 A. Specifically, I mean I can't
 8 remember today sitting here today. I mean my
 9 general recollection is, you know, the Patcom
 10 accounts was an issue during the audit. So
 11 there very well could have been some discussion
 12 about the Patcom reserves for the '96 audit.
 13 I mean I think when you look at --
 14 when I was referring to the past couple days,
 15 some of the additional work that was done, you
 16 know, in the Patcom accounts, it probably would
 17 be fair to say that was, you know, part of, you
 18 know, an overall type of analysis.
 19 Q. Do you recall which of the DVOG
 20 entities had Patcom accounts? In other words,
 21 which hospitals were on the Patcom system?
 22 A. I thought it was Elkins Park, Bucks
 23 County, and St. Christopher's.
 24 Q. Okay. That's consistent with what
 25 the schedules seem to indicate.

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1 fiscal '96?
 2 A. I think it was '96, and the reason
 3 I say that is because the deferred financing
 4 costs and the discount and extraordinary loss
 5 items, that was related to the debt refinancing
 6 in fiscal '96.
 7 Q. Okay. Do you recall what was met,
 8 to the best of your knowledge, by the language,
 9 uncollectable Patcom accounts of 25 million?
 10 A. Yeah. Whether there would be a
 11 possibility that some of the Patcom accounts
 12 wouldn't get collected.
 13 Q. Now, there would have been reserves
 14 out there for Patcom accounts, right? We went
 15 through --
 16 A. Yes.
 17 Q. -- the schedules just now for at
 18 least Elkins, right?
 19 A. Right.
 20 Q. Do you have an understanding that
 21 the 25 million is what was potentially not
 22 covered by reserves and that's why this would
 23 be a potential expense item?
 24 A. Yeah. I'll be honest, I don't
 25 remember that 25 million, how it was arrived

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1 I'm going to hand you what's
 2 previously been marked as Exhibit 105. For the
 3 record, this is a -- appears to be a July 15th,
 4 1996 memo from Steven Spargo to Greg Snow which
 5 has been copied to, among others, Mr. Cancelmi.
 6 Do you remember seeing this
 7 document?
 8 A. Yes.
 9 Q. I want to focus -- I just want to
 10 read the language first into the record.
 11 Mr. Spargo writes, "in reviewing the various
 12 A/R and net revenue adjustments that have been
 13 recorded in our June close, it occurred to me
 14 that we may want to spend some extra time
 15 analyzing our June 30th A/R balances in an
 16 effort to identify all potential exposures
 17 included therein. Although, I would not
 18 envision immediately sharing such an analysis
 19 with our auditors, I do believe that it should
 20 be assessed in conjunction with their
 21 determination of the year end operating
 22 results. However, I foresee the most
 23 significant advantage as having full knowledge
 24 of your prior year A/R exposure before
 25 embarking on fiscal year 1997."

37 (Pages 455 to 458)

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1 And then finally in this paragraph,
2 "we may want to go so far as to specifically
3 isolate these exposures within our accounting
4 records so as to avoid the prior year confusion
5 that has haunted us throughout 1996."

6 Do you recall any discussions that
7 happened after this memo?

8 A. I don't remember specifically. I'm
9 sure there were. I'm sure we had conversations
10 regarding receivables. I mean this is even
11 before the audit started.

12 Q. Based on your working relationship
13 with Steve Spargo over the years, do you have a
14 personal opinion on what he means when he says,
15 although I would not envision immediately
16 sharing such analysis with their auditors?

17 MR. RYAN: Objection.

18 A. I mean I would take that to mean
19 that before Coopers comes in and, you know,
20 starts the audit and before we, management,
21 finalizes the numbers, they, management should
22 look at the numbers and make some conclusions
23 themselves before the auditors come in.

24 And then it doesn't say not to be
25 shared, it just says not immediately sharing.

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1 conversion.

2 Coopers & Lybrand obviously knew
3 about that, because when they audit the systems
4 of the computer, they need to know what
5 computer systems we have; not only their
6 auditors, but they bring in information systems
7 people to look at our computer systems.

8 So, you know, the Patcom system
9 conversion, I mean that was no secret or
10 anything like that. I mean it was fully vetted
11 and it was out on the table. So I don't take
12 that the way you may have interpreted.

13 Q. I don't mean to infer what

14 Mr. Spargo was --

15 A. I'm just --

16 Q. -- I'm just trying to get an
17 understanding based --

18 A. I don't believe -- he didn't mean
19 that.

20 Q. Okay. Do you recall whether, in
21 addition to the \$17 and a half million of
22 various adjustments that were made to reserves
23 in the end of '96, whether there was any
24 discussion of utilizing in some way a
25 capitalized interest reserve on the books of

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1 Because I mean it's quite common, you know, you
2 close your books before you provide the data to
3 the auditors.

4 So I think what he was trying to
5 say, you know, to Greg Snow was, you know,
6 let's go through receivables and see if there's
7 anything out there that we need to focus on or
8 adjust or whatever before the audit starts.

9 Q. Based on your interactions with
10 Mr. Spargo up to this memo, do you believe he
11 was suggesting that AHERF should not share the
12 results of any analysis that AHERF did
13 regarding receivables?

14 MR. RYAN: Objection.

15 A. No.

16 Q. Why do you say that?

17 A. I mean, first of all, this issue,
18 it was out on the table. I mean it was my
19 impression that the questions were being raised
20 on the Patcom accounts.

21 So even if you used the assumption
22 that you're inferring there, I mean you
23 couldn't. I mean, you know, the numbers stood
24 out. They were relatively sizable numbers.
25 There was a patient accounting system

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1 Allegheny General Hospital?

2 A. On Allegheny General?

3 Q. Uh-huh.

4 A. Yeah, that was discussed I think at
5 one point. In fact, there's a memo out there,
6 I think, where that was one of the items being
7 considered.

8 Q. Did you discuss it with Coopers?

9 A. I can't remember if we did or not.

10 I know the capitalized interest adjustment was
11 something that Coopers always brought up during
12 the course of the audit. Allegheny as a matter
13 of policy didn't capitalize interest on
14 construction projects.

15 And I think almost every year, the
16 audit, Coopers would come in and say, hey, have
17 you capitalized interest, and we would say no.
18 And so, you know, they bring it up and say, you
19 know, that's going to be an adjustment item,
20 you know, the interest should be capitalized.

21 And I think as we saw in the one
22 exhibit, it's 122, I believe, there was
23 capitalized interest adjustments there that
24 were used to increase the bad debt reserves for
25 the Philadelphia hospitals.

38 (Pages 459 to 462)

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1 And I think probably around the
2 same time, in addition to estimating
3 capitalized interest on the Philadelphia
4 hospitals, you also do the same thing on the
5 Pittsburgh hospital, Allegheny General. So I
6 believe that was potentially a topic of
7 conversation, sure.
8 Q. Just to make sure I understand
9 this, what capitalized interest is, let me
10 explain what I think it is and correct me if
11 I'm wrong, so we can keep things moving along.
12 Is it a change in policy about
13 whether or not you're going to take income --
14 or take interest expense on your income
15 statement for certain construction projects,
16 and instead of taking that expense on the
17 income statement, which would be a debit,
18 correct?
19 A. The interest expense is a reduction
20 of your income.
21 Q. And turn that into an asset, if you
22 will, which -- capitalized interest, which is
23 an asset, which is also a debit, right?
24 A. Yes. I mean there's specific
25 accounting rules that allow that, the

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1 A. Yes.
2 Q. Now, in using the reserves created
3 via capitalized interest, some of the interest
4 expense that was being taken off the books
5 because of the change in the accounting policy
6 related to prior year interest expense, right?
7 A. Yes.
8 Q. Is that what that schedule is
9 telling you?
10 A. Yes.
11 Q. So did not relate to current year,
12 fiscal year '96, right?
13 A. That's correct.
14 Q. Do you remember any discussion
15 within AHERF regarding whether it was
16 appropriate to use prior year or reserves
17 relating to prior year activity --
18 A. Yeah, I think --
19 Q. -- for current year income issues?
20 A. I think that came up, whether we
21 should go back and use capitalized interest for
22 the prior year or not. And, you know, my
23 recollection is that based on the fact that the
24 amount was not material, that it would be okay
25 to do it.

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1 capitalized interest.
2 Q. I'm not saying it's in any way
3 wrong. But is there a policy that you know of
4 that requires entities like AGH and the DVOG
5 entities to capitalize interest, or is it just
6 a discretionary treatment?
7 A. There's a specific accounting
8 standard that indicates, depending on the type
9 of projects you can capitalize interest.
10 Q. Okay. You can capitalize; it
11 doesn't mean you shall capitalize.
12 MR. RYAN: Objection.
13 A. Yeah, I would have to read the
14 standard or have an accounting person -- you
15 have to read the standard. I don't remember
16 the standard exactly. But it's relatively
17 common for companies to capitalize interest.
18 Q. Why don't we go back to Exhibit
19 122, which is your handwritten memo on the 17
20 and a half million in adjustments.
21 Do you see on that schedule that
22 some of the items listed refer to prior year
23 capitalized interest?
24 A. Yes.
25 Q. \$2 million?

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1 Q. Who do you remember the discussions
2 with?
3 A. I couldn't -- I mean maybe Steve.
4 Could have been Chuck Lisman. It could have
5 been Coopers & Lybrand. I don't know exactly
6 who -- I don't remember exactly who.
7 Q. If it was at Coopers & Lybrand,
8 based on your interactions in the '96 audit
9 with Coopers, who would it likely have been
10 with?
11 A. For '96? I couldn't say for
12 certain. I mean I think Kirstein was the
13 manager that year. I don't know if Amy was a
14 manager.
15 But I mean we used to have
16 conversations with Coopers about the
17 capitalized interest, because it was always one
18 of their proposed adjustments.
19 Q. So Coopers would, in essence, be
20 encouraging you to use this as an opportunity
21 to create reserve?
22 MR. RYAN: Objection.
23 A. Yeah, I can't say whether Coopers
24 was encouraging or not. I know it was an
25 adjustment that Coopers would seem like they

39 (Pages 463 to 466)

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1 proposed every year. And it was, just seemed
2 like -- my memory is, it seemed like it was,
3 you know, this would be one way to, you know,
4 hey, why don't you capitalize this interest,
5 you would be able to potentially booster the
6 bad debt reserves.

7 Q. I want to ask you a hypothetical
8 question. If the prior year -- if the reserves
9 utilized, 17.5 collection of reserves utilized
10 to increase bad debt reserves, was all prior
11 year issues, do you believe that would have
12 been material?

13 MR. RYAN: Objection.

14 A. I couldn't make that conclusion.
15 You would have to look at -- you would have
16 to -- the independent accountant needs to make
17 those conclusions based on how big the company
18 is, what the issues are, what other adjustments
19 may or may not be out there.

20 Q. If you wanted to change the policy
21 on capitalized interest and modify how interest
22 expense was taken in prior years, how would
23 that theoretically under GAAP typically be
24 handled?

25 MR. RYAN: Objection.

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1 Q. Is that a possibility of what could
2 have been done to deal with the scenario I just
3 discussed?

4 MR. RYAN: Objection.

5 A. Related to capitalized interest?

6 Q. To capitalized interest and
7 changing how accounted for prior year's
8 interest expense.

9 MR. RYAN: Objection.

10 A. That could have been an option.

11 MR. TORBORG: We've been going for
12 a while. Maybe we should probably take lunch.

13

14 (Lunch recess.)

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1 A. Well, the actual accounting entry?

2 Q. Uh-huh.

3 A. You would debit property and
4 equipment, and you would credit interest
5 expense. That's how the entry is recorded.

6 Q. If you wanted to do it during a
7 later year, how would you do it?

8 MR. RYAN: Objection.

9 Q. If it was a material item.

10 A. If it was material, if someone
11 would conclude it was material, you can
12 assess -- well, there's a couple things you can
13 do. You can assess whether it requires
14 restatement of the prior year financial
15 statements. Or it could be a disclosure in the
16 financial statements, you know, that there had
17 been a change in accounting policy.

18 Q. A change in accounting policy, is
19 that a separate line item on the financial
20 statements?

21 MR. RYAN: Objection.

22 A. No.

23 Q. No. Are you familiar with the term
24 "prior period adjustment"?

25 A. Yes.

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1 AFTERNOON SESSION

2 VIDEO TECHNICIAN: On the record.

3 CONTINUED EXAMINATION OF DANIEL CANCELMI

4 BY MR. TORBORG:

5 Q. Good afternoon, Dan.

6 A. Good afternoon.

7 Q. I'm going to hand you a document
8 that's already been marked in this case. It's
9 Exhibit 29. Ask you to take a look at that.

10 A. (Witness reviewing document.)

11 Q. Do you recall drafting this
12 document?

13 A. Yes.

14 Q. Do you know if you talked with
15 anybody before you drafted it and circulated
16 it?

17 A. I think I discussed it with -- I
18 think actually Steve asked me to put the
19 memorandum together.

20 Q. What was the purpose of this
21 memorandum? Tell me what you're doing here in
22 this document.

23 A. Summarizing some of the older
24 outstanding categories of accounts for the DVOG
25 hospitals and assuming that the items or the

40 (Pages 467 to 470)

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1 accounts that were in the aging categories that
2 are listed on page 2, if they wouldn't be
3 collected, what some of those amounts may be.
4 And then what reserves existed out there to
5 potentially cover them.

6 Q. Do you see in the second paragraph
7 it says -- for the record, by the way, this is
8 a September 24th memo from Dan Cancelmi to
9 Steve Spargo.

10 Do you see there in the second
11 paragraph it says, "I believe it is fair to
12 state that there is a pool of old receivables
13 that we will not be able to collect." Then it
14 goes on.

15 What did you mean by that?

16 A. That there was some older accounts
17 out there that were either maybe greater than a
18 year old or close to a year old. And when
19 accounts usually get that old, there's usually
20 a pretty good likelihood that some amounts
21 would not be collected.

22 Q. Let me ask you this. When did you
23 become aware that there were older accounts in
24 the magnitudes that are listed on the second
25 page of this document?

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1 It was my understanding McConnell
2 was aware of it. You know, obviously Robin
3 Schaffer, who worked for me. People who worked
4 for Joe Dionisio in the billing department,
5 like Greg Snow, you know, a number of
6 individuals within that department, other than
7 Greg, like Russ Laing.

8 There were people who worked for
9 Chuck Morrison out in Philadelphia, they were
10 called -- they were like -- they were, I forget
11 exactly what their title was. They were like
12 the finance liaisons with the hospitals, like
13 Cathy Stevens and Randy Jacobson, if there were
14 receivable issues.

15 A lot of the operating people at
16 the hospitals knew that the billing department
17 wasn't necessarily performing up to, I guess,
18 expectations or what they thought they could be
19 performing to.

20 And I mean I think that bears out
21 when you look at some of the work that
22 management had done and analyses and how they
23 asked Coopers to come in and do a review and
24 there was comments in the management letter to
25 that effect.

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1 A. I don't know exactly when. I know
2 that, you know, we would do the bad debt
3 calculations each month. So, you know, as bad
4 debts continue to maybe to get higher, the bad
5 debt expense, there would be questions, why is
6 that? And you can go to these aging reports
7 and it would identify how old some of the
8 receivables were.

9 Q. Was this a topic, the topic of
10 having a pool of old receivables out there, was
11 this a topic that was well-known throughout the
12 AHERF accounting department?

13 A. Yeah, that's probably a fair
14 characterization. At least, I mean some people
15 who were involved in the process.

16 Q. Okay. Who was involved in the
17 process again?

18 A. There would have been a number of
19 people involved; my supervisor, Steve Spargo,
20 Chuck Morrison, who was the chief financial
21 officer for the Philadelphia hospitals, Joe
22 Dionisio, who was a chief financial officer in
23 the Pittsburgh hospitals, but he was also in
24 charge of the billing departments for all the
25 hospitals, both Pittsburgh and Philadelphia.

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1 And there was, you know, obviously
2 the transition of the billing department from
3 Philadelphia to Pittsburgh, which was
4 considered to be one of the reasons why there
5 was problems in that area.

6 I think when you -- in the -- I
7 think Allegheny did debt refinancing in fiscal
8 '96 at one point. I think there was a mention
9 in there about there was some problems with the
10 billing department due to the consolidation of
11 the departments in Pittsburgh, because
12 receivables increased or bad debt expense
13 increased or something to that effect. I mean
14 it was widely known.

15 Q. Now, I want to refine my question a
16 little bit about not whether these individuals
17 knew that they were old accounts, but whether
18 it was widely known that there were old
19 accounts that were also uncollectable.

20 Do you see a difference between
21 those two questions?

22 A. Yeah. I mean I guess, yeah, I mean
23 there's a difference. I think, though, when
24 people realize that if cash collections aren't
25 what they thought they would be, oftentimes

41 (Pages 471 to 474)

Page 503

1 me back up.

2 Do you recall that oftentimes when
3 the billing office patient financial services
4 group would write off accounts, that they would
5 write it off directly to the income statement
6 by charging contractual allowance expense?

7 A. Yes.

8 Q. Okay. And then the accounting
9 department, you would take that and at times
10 put that against the bad debt reserves, right?

11 A. Yeah, that could happen, or other
12 contractual reserves that were out there.

13 Q. Okay. Do you recall whether there
14 was an instance where AHERF took what was a
15 debit to contractual allowance expense needed
16 to write off some accounts and turned it into
17 or reclassified it as a debit to the PIP
18 account?

19 A. Can you be more specific?

20 Q. I don't think I can. Do you
21 understand the accounting entries I'm
22 suggesting?

23 A. No. Repeat that again.

24 Q. Okay. I started off this by
25 stating that PFSG would often write off

Page 505

1 been adjustments like that.

2 Q. Okay. Do you know if Coopers &
3 Lybrand would have been aware, to the best of
4 your knowledge, would have been aware that such
5 an adjustment was made?

6 MR. RYAN: Objection.

7 A. Actually, I believe Coopers, I
8 think Allegheny -- I think so. I thought
9 Coopers was engaged or brought in to help
10 Allegheny reconcile the PIP accounts. They
11 actually -- and I actually think Amy was
12 involved in it where they -- you know, the
13 accounts hadn't been reconciled for whatever
14 number of years, maybe. And I don't know who
15 asked them to come in, whether it was McConnell
16 or Spargo, but I'm pretty sure there was one
17 point Coopers was brought in for at least a
18 couple weeks or a month to help reconcile the
19 PIP accounts.

20 MR. TORBORG: I think we need to
21 change the tape.

22 VIDEO TECHNICIAN: Going off the
23 record at 1:42.

24 (Mr. Whitney exits deposition
25 room.)

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1 accounts by charging contractual allowance
2 expense, right?

3 A. Right.

4 Q. So instead of having a debit to bad
5 debt reserves, you would have debit to
6 contractual allowance expense.

7 A. Okay.

8 Q. Right? And I'm asking you if you
9 recall whether or not that debit to bad -- that
10 debit to contractual allowance expense was
11 credited off, so to speak, meaning taking away
12 the debit.

13 A. Okay.

14 Q. And so crediting that contractual
15 allowance expense and then debiting a PIP
16 account.

17 A. There could have been adjustments
18 like that.

19 Q. Do you recall adjustments like
20 that?

21 A. Specifically, no, but I know there
22 was -- we made adjustments in '96 to the PIP
23 account just because there was -- there was,
24 you know, they hadn't been reconciled for a
25 long time, so there was, very well could have

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1 (Brief recess.)

2 VIDEO TECHNICIAN: We're on the
3 record.

4 Q. When we broke you were talking
5 about your belief that Coopers and Amy Frazier,
6 specifically, may have been involved in helping
7 AHERF reconcile some PIP accounts?

8 A. Yes.

9 Q. What makes you remember that? Is
10 there anything specific that makes you
11 remember?

12 A. Just when you showed me that
13 comment about the PIP account comment, that
14 came to my memory that I thought at one point
15 Coopers -- Allegheny asked Coopers to help out
16 and reconcile some of the PIP accounts of
17 Allegheny.

18 Q. Was this in the form of a special
19 engagement or was this part of the audit?

20 A. I don't know if there was like a
21 separate engagement letter or anything like
22 that. I don't remember it being at the same
23 time as the audit. I thought it was before
24 that. I don't remember the exact date.

25 Q. Who would Coopers have worked with

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1 on that kind of a project?
 2 A. I don't know if Robin was there yet
 3 or not. Maybe Robin. Because they would have
 4 worked, I guess, a little bit with me. I don't
 5 know exactly who they would have worked with.
 6 Q. Could it have been with members of
 7 the reimbursement department?
 8 A. Could have been, sure, because I
 9 think the reimbursement department helped out
 10 at times reconciling the PIP accounts.
 11 Q. So individuals like Joe Scharf and
 12 his group?
 13 A. Yes.
 14 Q. Do you remember anything else about
 15 Coopers assisting AHERF in reconciling the PIP
 16 accounts?
 17 A. No. I just -- I remember that I
 18 think they were brought in to help out. I
 19 don't remember exactly how long they were
 20 there, but they helped out at some point.
 21 Q. I'm going to hand you what's
 22 previously been marked as Exhibit 164. I'm
 23 going to be asking you about two things. One
 24 is the bullet on the second page, third bullet
 25 down. And then I'll ask you about that later.

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1 A. Yes.
 2 Q. What makes you think that?
 3 A. Because it's in his memo.
 4 Q. Why was he doing that, do you know?
 5 A. Again, just to try to potentially
 6 identify what, you know, the deficiency may
 7 have been in June of '96. Again, looking back
 8 at the activity that occurred during fiscal '97
 9 to see how much was like a prior year impact.
 10 Because there was -- I mean there was
 11 conversations at times, you know, all these
 12 receivable problems, what time period do they
 13 relate to, you know. Is it the current stuff,
 14 is it the older stuff.
 15 You know, I think Joe Dionisio's
 16 department assumed control or responsibility of
 17 the billing department in Philadelphia at a
 18 certain point in time. I don't remember
 19 exactly when that was. But I think it's fair
 20 to say that there would be comments made at
 21 times, they inherited a lot of problems from
 22 the eastern hospitals' billing departments, and
 23 you would hear comments.
 24 I mean some of the people who ran
 25 the billing departments, like Evan Fox and Rich

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1 And then about the attachment D.
 2 Have you had a chance to look at
 3 attachment D?
 4 A. Okay.
 5 Q. Do you know who was the drafter of
 6 the schedule that's attachment D? Schedules.
 7 A. I think this was -- when I was
 8 putting this memo together, I think I may have
 9 given a draft copy to Al Adamczak and then Al
 10 reviewed it, provided his comments, and I
 11 thought this attachment D was a schedule that
 12 Al wanted included in his write-up.
 13 Q. Do you have an understanding of
 14 what Mr. Adamczak is attempting to do in the
 15 top schedule?
 16 A. Yeah. He was -- I'm sure I helped
 17 and Robin probably would have done a lot of the
 18 detail legwork. What he was trying to do was
 19 estimate or put a schedule or analysis together
 20 that might suggest what the bad debt reserve
 21 deficiency may have looked like in June '96,
 22 looking back a year later with hindsight.
 23 Q. So it's your understanding that
 24 this schedule was drafted approximately one
 25 year after the close of fiscal year '96?

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1 Madison, were still around. And I mean you'd
 2 hear comments, you know, they may not
 3 necessarily agree with the assessment of what
 4 they -- the Pittsburgh and Dionisio's
 5 department inherited wasn't necessarily bad.
 6 So there was, you know, some
 7 conversations going back and forth as to, you
 8 know, really what time frame does this relate
 9 to, who is responsible for it, that type of
 10 stuff.
 11 Q. We talked yesterday and a little
 12 bit today about the \$75 million of various
 13 reserves that were transferred to the DVOG bad
 14 debts, right? And this memo, or this analysis
 15 that Adamczak is performing is after around the
 16 time of those transfers, right?
 17 A. Yes.
 18 MR. RYAN: Objection.
 19 Q. Is he attempting, do you believe,
 20 to assess whether the entirety of those
 21 transfers related to problems in fiscal year
 22 '97 as opposed to some prior year or years?
 23 A. I'm not -- I think he's trying to
 24 assess how much of the, you know, the
 25 adjustments that were made during fiscal '97

50 (Pages 507 to 510)

Page 539

1 as part of the fiscal '96 audit?
 2 A. I think so. I think so.
 3 Q. Who would those discussions have
 4 been with?
 5 A. I can't say for certain whether I
 6 had them or Robin had them or Steve had them.
 7 It just -- just seemed like the issue was out
 8 there. That's my memory.
 9 Q. Who at Coopers would the discussion
 10 have been had with?
 11 MR. RYAN: Objection.
 12 Q. If you know.
 13 A. It could have been -- I mean it
 14 could have been anyone. I mean from Buettner
 15 on down to Amy or Mark or whoever the in-charge
 16 was that year, Jeff Womer or Brian Christian.
 17 It could have been a number of different
 18 people.
 19 Q. Now, I want to just pin this down.
 20 Do you remember any specific discussions with
 21 anyone at Coopers about the accounts at gross
 22 issue?
 23 A. I remember that the accounts at
 24 gross were discussed. I can't say specifically
 25 that I had them or if someone else had them.

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1 But it was -- these accounts -- the issue of
 2 accounts at gross, my understanding, was an
 3 issue that Coopers & Lybrand was aware of.
 4 Q. Do you recall hearing either
 5 firsthand or secondhand or thirdhand what
 6 Coopers' response was or what they were telling
 7 AHERF when this issue was brought up?
 8 A. Not necessarily specifically. I
 9 know that was at one of their audit steps that
 10 they performed.
 11 Q. What audit tests are you talking
 12 about?
 13 A. Just to see how much the accounts
 14 at gross may be and what, you know, what the
 15 potential exposure is. Now, whether it was in
 16 their audit program or their work program, I
 17 don't know specifically. But it was my
 18 recollection that, you know, it was an issue
 19 that was out there. You know, Allegheny people
 20 had brought it up and Coopers would ask about
 21 it every so often.
 22 Q. Do you know if Coopers had provided
 23 any schedules or documents that would show what
 24 the potential exposure was in this area?
 25 A. I believe they were.

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1 Q. What kind of reports were they
 2 shown?
 3 A. I think Robin would have provided
 4 them some type of reports. I don't know the
 5 exact reports.
 6 Q. In your experience at Coopers,
 7 would you have expected those kind of reports
 8 to be in the work papers?
 9 MR. RYAN: Objection.
 10 A. They could be, sure.
 11 Q. Show you what's been previously
 12 marked as Exhibit 149. You're free to look at
 13 the entirety of this document, but I am just
 14 going to ask you about the second page on
 15 accounts at gross.
 16 A. Okay.
 17 Q. If you could take a read of those
 18 two indented paragraphs into that.
 19 A. (Witness reviewing document.)
 20 Okay.
 21 Q. This, I take it, is your response
 22 to his March 11th memo that we saw as
 23 Exhibit 147?
 24 A. Yes.
 25 Q. And you see in the second paragraph

Page 542

1 under accounts at gross you say, or you have
 2 written, "the level of accounts at gross that
 3 needed contractualized as set forth in your
 4 March 11, 1997 memo was considered for
 5 potential adjustment. However, due to
 6 insufficient profitability levels and available
 7 reserves, a determination was made to not
 8 manually contractualize those accounts."
 9 Do you recall who made the decision
 10 not to record a reserve as Mr. Laing has
 11 suggested for accounts at gross?
 12 A. I think it was either Morrison or
 13 McConnell. As you can see further on in that
 14 paragraph, Chuck would ask every so often about
 15 the account, Chuck Morrison, the CFO, would ask
 16 every so often about accounts at gross.
 17 And, you know, in the context of
 18 some of the revenue numbers that would come out
 19 on some of the monthly financial statements.
 20 Q. Is it fair to say that this
 21 accounts at gross issue and the implications it
 22 has on financial reporting is not a minor
 23 issue?
 24 MR. RYAN: Objection.
 25 A. It can be a minor issue, but it can

58 (Pages 539 to 542)

Page 543

1 be, you know, a larger issue, depending on how
2 large they are.
3 Q. Do you recall any discussions with
4 Coopers about the possibility of recording a
5 reserve to offset the accounts at gross?
6 A. Specifically, I can't remember
7 specifically. Like I said a couple minutes
8 ago, the accounts at gross were discussed with
9 Coopers & Lybrand. And, you know, we didn't
10 necessarily have reserves for some accounts at
11 gross.
12 Q. Do you recall whether they told
13 AHERF, you need to put a reserve there to cover
14 that exposure?
15 A. I think it was a given that you
16 would need a reserve there.
17 Q. I apologize for having to go
18 through some of these Graduate reserve things
19 again, but there are a couple of questions that
20 have been asked that I would like to follow up
21 on.
22 A. Okay.
23 - - - - -
24 (Thereupon, Exhibit 1076 was marked
25 for purposes of identification.)

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1 - - - - -
2 Q. I've handed you what has been
3 marked as Exhibit 1076, which is a schedule
4 titled Schedule of Patient Accounts Receivable
5 as of June 30, 1997.
6 A. Okay.
7 Q. Do you recall -- first of all, have
8 you had a chance to look at that? Do you need
9 some more time?
10 A. No, I'm okay.
11 Q. Do you recall this schedule?
12 A. Yes.
13 Q. What is this schedule?
14 A. This is a schedule I think I
15 referenced yesterday. It's a schedule that
16 just identified all the various components of
17 the various patient accounts receivable
18 balances on the books of the hospitals.
19 Q. Is this sometimes referred to as a
20 lead schedule?
21 A. No.
22 Q. Okay. Does it have any sort of
23 nickname?
24 A. Not that I remember.
25 Q. Is this the type of schedule that

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1 Coopers could have received?
2 MR. RYAN: Objection. Entirely
3 speculative.
4 Q. Based on your experience with what
5 you --
6 MR. TORBORG: He did work with
7 Coopers & Lybrand. He may know. Not totally
8 speculative, I don't think.
9 MR. RYAN: I maintain the
10 objection.
11 MR. TYCKO: Wait a minute. What's
12 the question that's pending? Because you
13 started to rephrase it.
14 Q. Let me rephrase.
15 Do you recall whether you gave this
16 schedule to Coopers & Lybrand during the fiscal
17 '97 audit?
18 A. I don't remember giving this, but I
19 wouldn't have. It would have been someone like
20 Robin.
21 Q. Because she worked in accounts
22 receivable?
23 A. Right.
24 Q. When you were auditing AHERF from
25 the Coopers side, did you receive this kind of

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1 document as part of your audit?
2 A. No. The reason for that is this
3 type of document, this was a schedule that
4 Robin developed herself when questions, people
5 would have questions about some of the
6 components in accounts receivable.
7 So Robin and me worked together to
8 sort of develop this. And I do know that she
9 indicated to me that, you know, at times she
10 would give to this Coopers & Lybrand, this type
11 of schedule.
12 - - - - -
13 (Thereupon, Exhibit 1077 was marked
14 for purposes of identification.)
15 - - - - -
16 Q. If you could turn to Bates PWC
17 009492.
18 A. (Witness reviewing document.)
19 Q. I take it you've never seen this
20 document before?
21 A. I may have.
22 MR. RYAN: You mean just this page?
23 There are a lot of very disparate documents.
24 Q. I want to talk specifically about
25 the document that starts at this particular

Daniel Cancelmi

Volume 2

Page 635

1 DEPOSITION ERRATA SHEET

2

3 RE: THE OFFICIAL COMMITTEE OF

4 UNSECURED CREDITORS OF ALLEGHENY HEALTH,

5 EDUCATION & RESEARCH FOUNDATION vs.

6 PRICEWATERHOUSECOOPERS, L.L.P.

7

8 RRS File No.: 7472

9 Deponent: DANIEL CANCELMI

10 Deposition Date: January 24, 2003

11

12 To the Reporter:

13 I have read the entire transcript of my

14 Deposition taken in the captioned matter or the

15 same has been read to me. I request that the

16 following changes be entered upon the record

17 for the reasons indicated. I have signed my

18 name to the Errata Sheet and the appropriate

19 Certificate and authorize you to attach both to

20 the original transcript.

21

22

23

24

25

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION &
RESEARCH FOUNDATION,

Plaintiff,

Civil Action

No. 00-684

vs.

PRICEWATERHOUSECOOPERS, L.L.P.,
Defendant.

Continued videotape deposition of
DANIEL CANCELMI, called for examination under the
statute, taken before me, Jaci R. Traver, RPR,
CRR, and Notary Public in and for the State of
Ohio, at the offices of Jones Day, 500 Grant
Street, Pittsburgh, Pennsylvania, on Thursday,
the 6th day of February 2003 at 9:00 a.m.

- - - - -

VOLUME 3

- - - - -

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1 But I don't know in terms -- I had,
 2 you know, I believe I conducted myself with the
 3 upmost integrity. And objectivity, I mean I
 4 believe I was objective. I mean, but, you
 5 know, when you work for a company, I don't know
 6 if that legally changes this objectivity
 7 definition or not. I don't know.
 8 Q. All right. In 1997, you weren't an
 9 external auditor, right?
 10 A. No.
 11 Q. But you worked as an accountant at
 12 AHERF, right?
 13 A. That's correct.
 14 Q. And from May 1997 on, as the senior
 15 director of accounting and financial reporting,
 16 correct?
 17 A. That's correct.
 18 Q. And at that time, you were a member
 19 of the AICPA, the American Institute of
 20 Certified Public Accountants, right?
 21 A. Yes.
 22 Q. Do you see a little bit lower down
 23 that page, Rule 102-1, which reads, "a member
 24 who knowingly makes, or permits or directs
 25 another to make, false and misleading entries

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1 not, I can't say that I did or didn't. But I
 2 didn't direct people to make false and
 3 misleading entries.
 4 Q. And you were aware of the fact that
 5 as a CPA, that was something that you shouldn't
 6 do, right?
 7 MR. TORBORG: Objection.
 8 A. Yeah. I mean whether you're CPA or
 9 not, you shouldn't do that.
 10 Q. Could you turn, please, to the next
 11 page of Exhibit 1091. Do you see there Rule
 12 102-3, which is entitled, "obligations of a
 13 member to his or her employer's external
 14 accountant"?
 15 A. Yes.
 16 Q. Do you agree that in 1997, as a
 17 CPA, you had certain obligations to AHERF's
 18 external accountants?
 19 A. Yes.
 20 Q. And those were Coopers & Lybrand,
 21 right?
 22 A. Yes.
 23 Q. And did the duties that you owed to
 24 Coopers & Lybrand include being candid with
 25 them?

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1 in an entity's financial statements or records
 2 shall be considered to have knowingly
 3 misrepresented facts in violation of rule 102."
 4 A. Yes, I see that.
 5 Q. Did you in 1997 make and direct
 6 others to make certain entries into AHERF's
 7 financial records?
 8 A. Repeat that question.
 9 Q. Did you in 1997 make or direct
 10 others to make certain entries in AHERF's
 11 financial records?
 12 A. Yes.
 13 Q. And were you aware at that time of
 14 your obligation as a Certified Public
 15 Accountant not to make or direct others to make
 16 false or misleading entries?
 17 MR. TORBORG: Objection.
 18 A. I didn't make directions to anybody
 19 to make false or misleading entries.
 20 Q. Thank you. Were you, though, in
 21 1997 aware of that duty that you had as a
 22 Certified Public Accountant?
 23 A. Well --
 24 MR. TORBORG: Objection.
 25 A. Whether I knew the specific rule or

Page 732

1 A. Yes.
 2 Q. Did those duties also include not
 3 knowingly misrepresenting facts?
 4 A. Yes.
 5 Q. And finally, did those duties
 6 include not knowingly failing to disclose
 7 material facts?
 8 A. Yes.
 9 Q. Let me hand you, Mr. Cancelmi, what
 10 was previously marked as Exhibit 8.
 11 I believe we've looked at this
 12 previously. This is an April 14th, 1997 memo
 13 that you wrote to Mr. Spargo; is that right?
 14 A. Yes.
 15 Q. It's entitled, "restructuring
 16 charges earmarked for bad debt reserves."
 17 A. Yes.
 18 Q. If I could call your attention,
 19 please, to the second paragraph in the middle.
 20 I believe it's the fourth sentence. Do you see
 21 it reads, "the justification for recording
 22 these reserves on the Graduate hospitals'
 23 financials is that our experience suggests that
 24 similar to other AHERF acquisitions, it is
 25 inevitable that unknown loss contingencies

25 (Pages 729 to 732)

Page 733

1 exist related to the Graduate hospitals that
2 were not identified during the due diligence
3 process."

4 Do you see that?

5 A. Yes.

6 Q. Could you explain, please, what you
7 meant by unknown loss contingencies existing
8 relating to the Graduate hospitals?

9 A. Just what it says, that oftentimes
10 related to an acquisition there's contingencies
11 out there that aren't necessarily specifically
12 identified at the time of the acquisition.

13 Q. Can you just explain to us, for
14 those of us who aren't accountants, what a loss
15 contingency refers to?

16 A. It's potentially an item that you
17 may have to pay money for, or an item that
18 you -- an asset you might not collect. I mean
19 there's all kind of different examples.

20 Q. All right. So the idea was that
21 there might be these unknown loss contingencies
22 at the newly acquired Graduate hospitals?

23 A. Yes.

24 Q. And you state here in your memo
25 that that was the justification for recording

Page 735

1 unknown loss contingencies. And that would be
2 the justification for recording them on the
3 Graduate hospitals.

4 And then there was no question that
5 they would be transferred, those reserves would
6 be transferred to DVOG for their bad debt
7 reserves.

8 Q. There's no question in your mind
9 about that, right, that those reserves would be
10 transferred?

11 A. I don't think there's questions in
12 any people's mind.

13 Q. All right. But you don't know what
14 was in other people's minds, other than yours,
15 right?

16 A. No. I know that I had
17 conversations with a number of different
18 people, and that was always my understanding.

19 Q. All right. So let me ask you
20 again. Do you recall discussing with Coopers &
21 Lybrand that the justification for recording
22 reserves on the books of the Graduate hospitals
23 was unknown loss contingencies at the Graduate
24 hospitals?

25 MR. TORBORG: Objection.

Page 734

1 the reserves on the Graduate hospitals' books,
2 right?

3 A. Yes.

4 Q. And that was a true statement,
5 right?

6 A. Yes.

7 Q. Do you recall discussing with
8 Coopers & Lybrand in this time frame the
9 concept that there might be unknown loss
10 contingencies at the Graduate hospitals?

11 A. The background on this, and I think
12 I've testified a number of different times on
13 it, is that the rationale for establishing
14 these reserves was for, you know, related to
15 acquisitions there would be unknown loss
16 contingencies, and that they would be
17 transferred over to DVOG for their bad debt
18 reserve shortfalls.

19 Q. I'm not asking you, though, about
20 the transfer step. I'm asking you about the
21 justification for recording the reserves in the
22 first place.

23 A. That was part of my, I think the
24 first part of my answer. As part of the, you
25 know, the acquisition, that there's oftentimes

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1 A. I believe so.

2 MR. TORBORG: Asked and answered.

3 Q. Now, you refer here to your
4 experience with other AHERF acquisitions; is
5 that right?

6 A. I'm saying our experience.

7 Q. AHERF's?

8 A. AHERF's experience.

9 Q. Did that experience include the
10 Hahnemann acquisition?

11 A. Yes.

12 Q. Were there at Hahnemann unknown
13 loss contingencies that you didn't know about
14 at the time Hahnemann was acquired that came to
15 light later?

16 MR. TORBORG: Objection.

17 A. I think so.

18 Q. Did those loss contingencies
19 include accounts receivable issues?

20 A. They could have. I don't remember.

21 Q. Certainly by April of 1997, you
22 knew that there were a number of aged patient
23 accounts receivables on the books at Hahnemann
24 University Hospital, correct?

25 A. Yes.

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1 A. I don't know one way or the other.
 2 Q. And you didn't show Coopers &
 3 Lybrand on this memo that we've marked as
 4 Exhibit 37 as a recipient or a copyee, did you?
 5 A. No.
 6 Q. Let me hand you, Mr. Cancelmi, what
 7 has previously been marked as Exhibit 154.
 8 Is Exhibit 154 a memorandum that
 9 you sent to a distribution list dated May 22nd,
 10 1997 regarding Graduate system restructuring
 11 reserves?
 12 A. Yes.
 13 Q. And the distribution list as shown
 14 on the second page consisted of 10 AHERF
 15 employees, right?
 16 A. Ten, yes.
 17 Q. There's no one from Coopers &
 18 Lybrand shown on the distribution list, right?
 19 A. No.
 20 Q. Now, in this memorandum, you
 21 discussed the fact that the \$50 million in
 22 reserves that you had discussed previously in
 23 your April 14th memo, by this point in time had
 24 been established on the books of the Graduate
 25 hospitals through purchase price adjustments,

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1 A. Yeah, what that reserve -- my
 2 understanding of that reserve was -- I thought
 3 it was an estimate of anticipated losses on
 4 those physicians' operations that were
 5 anticipated over, I don't know if it was a year
 6 or next year or two.
 7 Q. All right. And what you learned
 8 from Mr. Spargo or Mr. Adamczak was that
 9 Mr. Buettner had advised that it would be
 10 appropriate to capitalize the anticipated
 11 losses on the Health America contract, and then
 12 amortize them over time, right?
 13 A. Yes.
 14 Q. And so that would involve
 15 establishing an asset known as goodwill on the
 16 balance sheet of AHERF, right?
 17 A. Yes.
 18 Q. And is it the case that when you
 19 heard about Mr. Buettner's suggestion relating
 20 to the Health America loss contract, that you
 21 said to yourself, well, perhaps the same
 22 accounting treatment could be applied to the
 23 \$50 million of reserves that we set up last
 24 month as restructuring cost?
 25 A. No, I don't remember it like that.

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1 right?
 2 A. Yes.
 3 Q. So is it fair to say that that
 4 change in accounting treatment occurred
 5 sometime between April 14th and May 22nd, 1997?
 6 A. Yes.
 7 Q. Now, I think you testified a couple
 8 of weeks ago a little bit about either
 9 participating in or learning about, I wasn't
 10 sure which, conversations with Bill Buettner
 11 about accounting for a loss contract with
 12 Health America?
 13 A. I don't think I participated in it.
 14 I heard about it.
 15 Q. All right. Who told you about
 16 conversations with Bill Buettner about possible
 17 accounting treatments for the Health America
 18 loss contract?
 19 A. It would have been probably Spargo
 20 or Adamczak.
 21 Q. And this was a risk contract that
 22 AHERF assumed as part of a transaction with
 23 Coventry Corporation that related to Health
 24 America and the Penn Group Medical Associates,
 25 right?

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1 The intangible asset related to the 50 million
 2 for the bad debt reserve, my memory is that
 3 preceded the Health America issue.
 4 Q. It's not the case that when you
 5 learned about Mr. Buettner's proposed
 6 accounting for the Health America risk
 7 contract, that you realized how purchase price
 8 accounting could work for preacquisition
 9 contingencies?
 10 A. No. My memory was that I thought
 11 it was the -- when the intangible, the purchase
 12 price adjustment or the intangible asset
 13 related to the 50 was discussed, I remember
 14 thinking, well, you know, boy, there's been
 15 other adjustments on Graduate that could have
 16 been potentially recorded in that manner. But,
 17 you know, they had already been recorded.
 18 I thought, my memory, I thought
 19 that the Health America came later on. I
 20 thought that was towards the end of '97. In
 21 fact, Steve might not even have been around at
 22 that point. That's why I say Steve or Al.
 23 I just seem to remember probably
 24 more Al than Steve on this Health America that,
 25 you know, said that there was some meeting with

38 (Pages 781 to 784)

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1 Buettner and that, you know, there was going to
 2 be this reserve established for estimated
 3 losses related to these physician practices of
 4 Health America. It was going to be recorded.
 5 Q. Do you see here the third sentence
 6 on the second page of Exhibit 154 reads, "this
 7 accounting treatment has been discussed with
 8 Coopers & Lybrand who agrees with this approach
 9 as these reserves are viewed as unrecorded
 10 preacquisition contingencies."
 11 A. Yes.
 12 Q. Would you explain to us, please,
 13 what is meant by unreported preacquisition
 14 contingencies?
 15 A. Similar to what I had in that
 16 April 14th memo. Just there's contingencies
 17 out there that you haven't necessarily
 18 specifically identified, but they're
 19 contingencies and recorded as part of purchase
 20 price accounting.
 21 Q. All right. So is this the same
 22 thing as what in your previous memo you
 23 referred to as a loss contingency?
 24 A. Yes.
 25 Q. And is it the case that you learned

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1 today, can you, that this sentence had specific
 2 reference to something Coopers & Lybrand said
 3 about the 50 million, as opposed to the general
 4 accounting treatment for unreported
 5 preacquisition contingencies?
 6 MR. TORBORG: Objection.
 7 A. No. I said it was related to the
 8 50. That's why it's in there.
 9 Q. If it was related specifically to
 10 the \$50 million, why didn't you write that?
 11 MR. TORBORG: Objection.
 12 A. I think I did. I mean it seems
 13 pretty clear.
 14 Q. You didn't yourself --
 15 A. There's 50 million. This is a
 16 summary of the reserves capitalized in
 17 intangible asset, and right below it says,
 18 accruals for existing Delaware Valley
 19 hospitals' bad debt reserves, and there's the
 20 50 million.
 21 That sentence precedes -- it's an
 22 introduction into the summary of these
 23 reserves, of which 50 out of the 60 million
 24 relates to the 50 million that relates to
 25 April 14th memo.

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1 that Coopers & Lybrand had advised AHERF that
 2 certain preacquisition contingencies should
 3 properly be accounted for through purchase
 4 price adjustments?
 5 A. Yes.
 6 Q. And that's what you state here in
 7 this sentence, right?
 8 A. Yes.
 9 Q. You don't recall when you wrote
 10 that sentence having any specific knowledge
 11 that Coopers & Lybrand had given that advice as
 12 it related to the \$50 million transferred to
 13 DVOG; isn't that right?
 14 MR. TORBORG: Objection.
 15 A. No. No. That -- if I understand
 16 your question, it's my understanding Coopers &
 17 Lybrand was comfortable with it at that point,
 18 for the intangible asset for the \$50 million of
 19 the bad debt reserves.
 20 Q. My question is directed, though, to
 21 the specific sentence, where it states that,
 22 "Coopers & Lybrand who agrees with this
 23 approach as these reserves are viewed as
 24 unrecorded preacquisition contingencies."
 25 You can't testify as you sit here

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1 Q. You can't recall any conversation
 2 in which you personally discussed the
 3 establishment of this \$50 million of reserves
 4 with Coopers & Lybrand before May 22nd, 1997,
 5 can you?
 6 MR. TORBORG: Objection.
 7 A. No. What I've testified is my
 8 understanding that I had been involved in
 9 conversations, and I've -- there's been --
 10 there's these notes of certain meetings of
 11 notes, which seem to be consistent with my
 12 recollection, where they talk about that the
 13 50 million would be recorded as an intangible
 14 asset for the DVOG bad debt reserves.
 15 Q. Do you recall an actual
 16 conversation that you personally were involved
 17 in with anyone from Coopers & Lybrand before
 18 May 22nd, 1997, about recording the \$50 million
 19 in the books at Graduate hospital?
 20 A. Generally, yes.
 21 Q. Do you recall an actual
 22 conversation, as opposed to a general
 23 understanding, do you actually recall a
 24 conversation?
 25 A. It was my understanding at the time

39 (Pages 785 to 788)

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1 that I had participated in a conversation with
 2 Coopers & Lybrand about this.
 3 Q. Who was there?
 4 A. At that point, I thought Bill
 5 Buettner was aware of this issue.
 6 Q. He talked with you; is that right?
 7 A. That was my impression when I wrote
 8 this, based on my either sitting in on the
 9 conference call or sitting in a meeting. And I
 10 think there's notes that would sort of confirm
 11 that conversations had taken place.
 12 This -- I'll go back to the
 13 beginning. I said that all along. I thought
 14 Allegheny had had conversations with Coopers &
 15 Lybrand about this. But I pointed out
 16 countless times, I can't tell you an exact day.
 17 I don't remember exactly what was discussed,
 18 specifically. But I'm just telling you, that
 19 was my recollection.
 20 And there's been documents that
 21 have been, I think, unsurfaced since then that
 22 would support that recollection.
 23 But, you know, to say -- am I going
 24 to sit here and say, I remember on April 13th
 25 exactly, you know, we discussed this? No. I

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1 MR. TORBORG: Objection.
 2 A. Yes, there certainly would have
 3 been conversations I probably wasn't a part of.
 4 Q. So your understanding that you had
 5 in the May 1997 time frame that Coopers was
 6 aware of the \$50 million reserve transfer might
 7 be hearsay from what other people told you, as
 8 opposed to anything from your own personal
 9 knowledge?
 10 A. No.
 11 MR. TORBORG: Objection. Misstates
 12 prior testimony.
 13 A. No. I wouldn't say that. You know
 14 what, it was -- my recollection was -- I'm not
 15 going to sit here and say I was involved in all
 16 the conversations, because I can't say that.
 17 But it was my recollection I had at least a
 18 conversation, if not maybe more, regarding this
 19 issue with Coopers & Lybrand.
 20 Q. Who at Coopers & Lybrand did you
 21 have the conversations with?
 22 A. Like I said a number of different
 23 times, it could have been Bill, Amy.
 24 Q. I'm not asking who it could have
 25 been. I'm asking who did you have the

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1 mean that's not realistic, and I've said that
 2 all along. It's, you know, six years ago. I
 3 said that all along, it was my general
 4 recollection. And you know, I stand by that.
 5 And I think there's been
 6 documentation, there would be documentation to
 7 support that.
 8 Q. Do you have any notes of any such
 9 conversation with Coopers & Lybrand?
 10 A. Not that I'm aware of.
 11 MR. TYCKO: You mean his own?
 12 MR. RYAN: That's right.
 13 Q. You don't have any notes you took
 14 of any such conversations, do you?
 15 A. You would have to look through my
 16 files at Allegheny, but --
 17 Q. In all the days that you've met
 18 with representatives of the SEC and
 19 representatives of Jones Day, no one has ever
 20 shown you any such notes, have they?
 21 A. No, they have not.
 22 Q. Is it possible that others from
 23 AHERF told you about conversations they had
 24 from Coopers -- had with Coopers and that you
 25 weren't part of those conversations?

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1 conversations with?
 2 A. Bill, Amy or Mark, individually or
 3 collectively. I can't say a hundred percent
 4 for certain. I didn't take notes and tape
 5 record every single conversation I had with
 6 Coopers & Lybrand.
 7 I'm just telling you what my
 8 recollection at that time was. And that's my
 9 recollection today.
 10 Q. Were these in-person meetings or
 11 over the phone?
 12 A. They could have been both.
 13 Q. You don't know whether they were
 14 either, though, do you?
 15 A. Could I say a hundred percent for
 16 certain? No.
 17 Q. You don't know whether you ever
 18 discussed this issue with Bill Buettner before
 19 you wrote this May 22nd memo, do you?
 20 MR. TORBORG: Objection.
 21 A. I -- we talked about this issue.
 22 What I'm testifying to is I can't remember
 23 specifically dates, times, where it was at,
 24 whether it was in-person, over phone, over the
 25 phone, and who was present.

40 (Pages 789 to 792)

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1 Q. And my question is -- my question
2 is -- I'm not asking you about specific date,
3 specific time. I'm not asking you any of that.

4 What I'm asking you is: Do you
5 recall personally discussing the \$50 million
6 reserve transfer with Bill Buettner?

7 A. I thought I did, yes.

8 Q. And how do you recall that?

9 A. Just my memory. That was my
10 recollection at the time.

11 Q. Do you remember anything else about
12 this conversation that you say occurred?

13 A. No. Just in general that it was my
14 memory that I had had a conversation.

15 Q. You don't know whether the
16 conversation was in-person or over the phone?

17 A. No.

18 Q. You don't know whether anybody else
19 was there for AHERF?

20 A. There probably was, but I can't say
21 a hundred percent who was there and who wasn't
22 there.

23 Q. You don't know whether anybody else
24 was there from Coopers & Lybrand?

25 A. No, I couldn't say a hundred

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1 my memory. And I don't have notes to say
2 either way where it was, the time, the place,
3 exactly what was said.

4 And, you know, just -- I spoke with
5 those individuals frequently. Some more than
6 others. But we dealt with Coopers & Lybrand a
7 lot of times on a daily basis. And I didn't
8 commit everything to memory, nor did I tape
9 record or make notes of everything.

10 So to expect me to sit here and say
11 exactly where it was, everyone who was there,
12 it's just not realistic.

13 Q. You say that each of those three
14 individuals may have been involved.

15 A. That's --

16 Q. You can't say that any one of them,
17 in fact, was involved, can you?

18 MR. TORBORG: Objection.

19 A. I would say that one was involved.

20 Q. You have no idea which one, right?

21 MR. TORBORG: Objection.

22 MR. WHITNEY: Could you let him
23 finish his answers, please?

24 A. These were the senior engagement
25 people in the account. And my understanding

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1 percent for certain who was there from Coopers
2 & Lybrand.

3 Q. You don't know what you told Bill
4 Buettner, do you?

5 A. This issue was discussed. It was
6 my understanding that Coopers & Lybrand had a
7 full understanding of it. But, no, I can't
8 tell you exactly what I said.

9 Q. You can't tell me even in general
10 terms what you said, can you?

11 MR. TORBORG: Objection.

12 A. In general terms, this issue was
13 discussed.

14 Q. Are you saying that you actually
15 recall discussing this issue with Bill
16 Buettner?

17 MR. TORBORG: Asked and answered.

18 Q. Are you saying that or not?

19 A. I believe that I had been involved
20 in a conversation with Bill Buettner. I've
21 said a number of different times that it was --
22 my memory of this is that Buettner, Kirstein or
23 Frazier would have been involved.

24 I don't know exactly every single
25 one who may have been involved, but that's just

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1 and my recollection is that they were involved.
2 I don't know exactly who was there every time
3 the issue was discussed. And I don't know what
4 else to say about it.

5 Q. You have no idea which one of these
6 three individuals that you've mentioned may
7 have been involved, in fact, was involved, do
8 you?

9 MR. TYCKO: All right. Enough is
10 enough.

11 MR. TORBORG: Objection.

12 MR. TYCKO: Antony, you've now
13 asked the same question about 20 times. You've
14 spent probably 10 or 15 minutes on it. Plus, I
15 can, if I had time, refer to you back to
16 another hundred pages of his testimony in his
17 prior nine or ten days of depositions where
18 he's answered these same questions. All right.
19 Why don't you just move on to
20 another topic. I really don't think that last
21 question you asked him is a question that has
22 not been asked at least two or three or four or
23 five or six times of him before right now.

24 MR. RYAN: Since I don't know the
25 answer to the question, could you read it back,

41 (Pages 793 to 796)

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1 please, Jaci.
 2 MR. WHITNEY: "You have no idea
 3 which one of these three individuals that
 4 you've mentioned may have been involved, in
 5 fact, was involved, do you?"
 6 MR. TORBORG: Objection.
 7 A. I believe that certain of those
 8 individuals were involved. I can't say with a
 9 hundred percent certainty exactly when, where,
 10 time, and exactly what was discussed, six years
 11 ago.
 12 Q. I understand you don't remember
 13 when, you don't remember where, you don't
 14 remember what was said. But I don't think you
 15 answered my question, which is: Is it the case
 16 that you also don't remember to whom at Coopers
 17 you believe you said this?
 18 A. I have said a number of different
 19 times, I thought that I've had conversations
 20 with the three of them, but I can't say for a
 21 hundred percent certainty, because I don't have
 22 a tape recording of the conversation. I've
 23 said that countless times. It's my general
 24 recollection. And I've been saying that for
 25 over five years.

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1 was probably necessary.
 2 MR. TYCKO: Can we go off the
 3 record?
 4 VIDEO TECHNICIAN: The time is
 5 12:45. We are going off the record.
 6
 7 (Luncheon recess taken.)
 8 -----
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1 Q. When you wrote the sentence that
 2 we're looking at where it says, "this
 3 accounting treatment has been discussed with
 4 Coopers & Lybrand," who did you have in mind
 5 when you wrote that sentence as having
 6 discussed it with Coopers?
 7 A. Specifically at Coopers? I'm not
 8 sure if I had anyone in mind. I said with
 9 Coopers & Lybrand.
 10 Q. I'm sorry, it was an unclear
 11 question.
 12 I was trying to ask who at AHERF
 13 did you have in mind who you believed had
 14 discussed this with Coopers & Lybrand?
 15 A. It would have been myself. It was
 16 my recollection Steve had conversations. Al.
 17 And I don't think I was involved in any
 18 conversation with McConnell, but I believe
 19 Steve had told me that McConnell had had a
 20 conversation about it.
 21 Q. How come you didn't write in the
 22 memo who at AHERF had discussed this issue with
 23 Coopers & Lybrand?
 24 MR. TORBORG: Objection.
 25 A. I don't know. I didn't think it

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1 AFTERNOON SESSION
 2 VIDEO TECHNICIAN: The time is
 3 1:35. We are going back on the record.
 4 CONTINUED EXAMINATION OF DANIEL CANCELMI
 5 BY MR. RYAN:
 6 Q. Good afternoon, Mr. Cancelmi.
 7 A. Good afternoon.
 8 Q. Do you remember that for a brief
 9 period of time after Mr. Spargo had announced
 10 that he was going to leave the AHERF
 11 organization, all of the people who reported to
 12 Mr. Spargo reported directly to Mr. McConnell?
 13 A. Yes.
 14 Q. And that was before Mr. Adamczak
 15 was appointed to fill Mr. Spargo's role; is
 16 that right?
 17 A. Yes.
 18 Q. It is your understanding that prior
 19 to that time, Mr. Spargo had periodic meetings
 20 with his superior, Mr. McConnell?
 21 A. Yes.
 22 Q. And that after Mr. Adamczak assumed
 23 that role, he, in turn, met with David
 24 McConnell regularly?
 25 A. Yes.

42 (Pages 797 to 800)

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1 Q. Did you attend any of the periodic
2 meetings with Mr. McConnell?
3 A. When? What point in time?
4 Q. At any point in time did you attend
5 the weekly or biweekly meetings with David
6 McConnell?
7 A. I was probably at some of them.
8 The short period of time that I guess I
9 reported directly to him, I think there was
10 only one meeting that I attended. Al was
11 there, too, I think. I don't know if anyone
12 else was there.
13 But at that -- you know, it was
14 maybe a week or two period, there was just I
15 remember one meeting that I was in there with
16 Al and David.
17 But other than that, I didn't meet
18 with McConnell alone, that I remember, during
19 that brief period that I reported to him.
20 During the time when Steve was there, Al was
21 there, you know, I was in meetings with
22 McConnell every so often. Not that frequently.
23 Q. Let me mark, please, as
24 Exhibit 1093 a one-page document with Bates
25 number DBR-AA 36504.

Page 803

1 Q. Do you recall that point being
2 raised with Mr. McConnell at this meeting?
3 A. Specifically, no. I mean I don't
4 remember the exact conversation.
5 Q. Is it your understanding that
6 Mr. McConnell was aware of the \$50 million
7 transfer?
8 A. Yes.
9 Q. Is it your understanding that he
10 approved of it?
11 A. Yes.
12 Q. Let me hand you, Mr. Cancelmi, what
13 has previously been marked as Exhibit 39, I
14 believe. It's a little bit hard to read. It's
15 definitely from Mr. Lisman's deposition and it
16 has Bates numbers DC8297, pages 1 to 2.
17 Focusing on the first page of
18 Exhibit 39, Mr. Cancelmi, is this a list of May
19 financial statement adjustments?
20 A. Yes.
21 Q. And did you prepare this schedule?
22 A. I believe so.
23 Q. And is that your handwriting at the
24 top of the page?
25 A. Yes.

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1 - - - - -
2 (Thereupon, Deposition Exhibit 1093
3 was marked for purposes of
4 identification.)
5 - - - - -
6 Q. Is Exhibit 1093, Mr. Cancelmi, a
7 copy of the agenda for the meeting that you and
8 Mr. Adamczak had with Mr. McConnell shortly
9 after Mr. Spargo announced he was leaving
10 AHERF?
11 A. I believe so.
12 Q. And you saw a copy of this agenda
13 at the time?
14 A. I believe so, yes.
15 Q. Did you help to prepare it?
16 A. Yeah, I may have.
17 Q. Do you see the last bullet point
18 item on the agenda, the Graduate reserves
19 earmarked for DV bad debt reserve?
20 A. Yes.
21 Q. Is that a reference, to your
22 understanding, to the \$50 million that was
23 transferred from the Graduate entities to the
24 DVOG hospitals?
25 A. I think so.

Page 804

1 Q. Could you read that for us, please?
2 A. Summary of adjustments provided to
3 Al and CPM.
4 Q. Is Al Al Adamczak?
5 A. Yes.
6 Q. Is CPM Charles P. Morrison?
7 A. Yes.
8 Q. When did you write that?
9 A. I don't know exactly.
10 Q. Did you write that after the AHERF
11 bankruptcy?
12 A. My notation?
13 Q. Yes, the one that you just read
14 into the record for us.
15 A. I may have. I can't say for
16 certain.
17 Q. Did you go back through various
18 documents you had in your files at some point
19 and try to identify which ones you recalled
20 providing to people?
21 A. Yes.
22 Q. And that's an example here, you at
23 the time in 1998 recall that back in 1997 you
24 had provided this particular schedule to
25 Mr. Adamczak and Mr. Morrison?

43 (Pages 801 to 804)

Daniel Cancelmi

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1 of \$2 and a half million from a Graduate
 2 reserve account to DVOG hospital?
 3 A. Yes.
 4 Q. And that's part of this \$7 million
 5 that was recorded as of May 1997, right?
 6 A. I believe so. Yes.
 7 Q. You don't recall providing Coopers
 8 & Lybrand with these standing accrual analysis
 9 schedules, do you?
 10 A. Offhand, no. I don't know if we
 11 did or not.
 12 Q. Let me hand you what's previously
 13 been marked as Exhibit 299.
 14 Do you recognize Exhibit 299, Mr.
 15 Cancelmi, as a June 23rd, 1997 memo from Ms.
 16 Schaffer to you?
 17 A. Yes.
 18 Q. Did she, at least at certain points
 19 in time, prepare monthly memos like this about
 20 Delaware Valley's patient revenue?
 21 A. Yes.
 22 Q. On this memo it appears that she
 23 copies Mr. Morrison, Mr. Adamczak?
 24 A. Yes.
 25 Q. There are no other copyees listed,

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1 Q. Then on the next page for St.
 2 Christopher's Hospital there's an additional
 3 \$1 million recognition of reserves from
 4 Graduate, right?
 5 A. Yes.
 6 Q. And if we go back to the page with
 7 Bates number 189 for Elkins Park, there's
 8 another \$1 million recognition of reserves from
 9 Graduate, right?
 10 A. Yes.
 11 Q. And that's the \$7 million that was
 12 transferred in the May 1997 closing, right?
 13 A. That's correct.
 14 Q. So that anybody who received a copy
 15 of this memo marked as Exhibit 299 could have
 16 learned from looking at the footnotes about the
 17 \$7 million reserve transfer, right?
 18 A. Yes. It would be one way, yes.
 19 Q. But you don't recall providing this
 20 memo to Coopers & Lybrand, do you?
 21 A. This particular memo, I don't know
 22 if we did or not. I would say the same thing.
 23 These, just like that summary of adjustments,
 24 these monthly schedules I used to file in my
 25 monthly financial statement binder.

Page 822

1 right?
 2 A. No.
 3 Q. If you could turn, please, to the
 4 page with the Bates number DBR-RS-0191.
 5 A. Yes.
 6 Q. Is this page an example of what you
 7 and Robin referred to as a cheat sheet?
 8 A. Yes.
 9 Q. It was a way to try to reconcile on
 10 an analytical basis between gross and net
 11 patient revenue?
 12 A. Yes. And we provided this monthly
 13 when management was reviewing the financial
 14 statements. And then when we'd go out to
 15 Philadelphia and discuss financial statements
 16 with some of the people out there, this was
 17 nice summary of, you know, some of the results
 18 for the month.
 19 Q. All right. Do you see here, we're
 20 on a sheet for Hahnemann Hospital, right?
 21 A. Yes.
 22 Q. Do you see there footnote C reads,
 23 "includes \$5 million recognition of reserves
 24 from Graduate"?
 25 A. Yes.

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1 And I know we gave some schedules
 2 to Coopers for this information, but it was
 3 distributed to a lot of different individuals
 4 within the company.
 5 Q. Do you know whether this went to
 6 Dr. Kaye?
 7 A. It might have. It certainly went
 8 to Chuck Morrison. I don't know if Chuck would
 9 have given it to him or not.
 10 Q. Let me hand you what's previously
 11 been marked as Exhibit 41. Do you recognize
 12 Exhibit 41, Mr. Cancelmi?
 13 A. Yes.
 14 Q. What is it?
 15 A. It's a summary of Delaware Valley's
 16 DVOG bad debt reserve shortfall. I guess this
 17 is as of May '97.
 18 Q. There's a reference here to the
 19 \$50 million transfer of reserves from Graduate,
 20 right?
 21 A. Right.
 22 Q. And even after that transfer, there
 23 was still a shortfall in the bad debt allowance
 24 accounts at the DVOG hospitals of about
 25 \$25 million; is that right?

48 (Pages 821 to 824)

Page 825

1 A. Correct.
 2 Q. And you sent this memo to
 3 Mr. Morrison?
 4 A. Yes.
 5 Q. And you copied, I think, seven
 6 other AHERF officers or employees?
 7 A. Yes.
 8 Q. And Coopers & Lybrand isn't shown
 9 as a recipient or a copyee, are they?
 10 A. That's correct.
 11 Q. Let me hand you what's previously
 12 been marked as Exhibit 43. Do you recognize
 13 this exhibit, Mr. Cancelmi?
 14 A. Yes.
 15 Q. What is it?
 16 A. It's a summary of reserves that
 17 were utilized to address bad debt shortfalls in
 18 the Health Partners issue related for the DVOG
 19 hospitals.
 20 Q. Does this memo summarize the
 21 transfer of reserves that was undertaken to
 22 cover the \$25 million bad debt reserve
 23 shortfall referred to in the memo we were just
 24 looking at marked as Exhibit 41?
 25 A. Yes.

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1 all the capitalized interest reserve. The
 2 depreciation reserve, I guess was --
 3 capitalized interest, I think that was set up,
 4 I don't remember the exact entry, but it was
 5 capitalized interest you credit interest
 6 expense. And then I think a reserve was
 7 recorded to offset the interest credit that was
 8 recorded.
 9 Q. Okay. That's helpful. I asked a
 10 bad question.
 11 The capitalized interest reserves
 12 at the DVOG corporations were established
 13 appropriately, according to GAAP, right?
 14 A. Yeah, the capitalized interest, I
 15 think I've testified a lot of times on this,
 16 AHERF as an organization didn't record
 17 capitalized interest on a monthly basis. And
 18 then usually as part of the annual audit,
 19 Coopers & Lybrand would come in and, you know,
 20 ask whether it was recorded, and then suggest
 21 that we record it.
 22 And I think up until '96, it hadn't
 23 been recorded. And then in '96, it was
 24 recorded. I think when it was recorded, like I
 25 said, I think interest was credited. And then

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1 Q. If we turn to the second page of
 2 Exhibit 43. I don't know if your copy is a
 3 little bit cut off on the right.
 4 A. A little bit.
 5 Q. There's a reference there on the
 6 first row to the same \$25,083,000 shortfall
 7 that you had in your June 20th memo, right?
 8 A. I think so. Yes.
 9 Q. And what's listed here is a list of
 10 reserves used to cover the shortfall, right?
 11 A. Correct.
 12 Q. Some were existing DVOG reserves,
 13 right?
 14 A. Correct.
 15 Q. Others were purchase accounting
 16 reserves that you transferred from Graduate,
 17 right?
 18 A. Correct.
 19 MR. TORBORG: Objection.
 20 Q. The existing DVOG reserves had
 21 previously been expensed in AHERF's financial
 22 statements, right, when those reserves were
 23 established?
 24 MR. TORBORG: Objection.
 25 A. Capitalized interest. Those were

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1 there was a corresponding reserve established.
 2 So it sort of washed out on the income
 3 statement.
 4 Q. All right. And that's an
 5 appropriate accounting treatment under GAAP,
 6 right?
 7 MR. TORBORG: Objection.
 8 A. Based on that, yeah, that was my
 9 understanding, yes.
 10 Q. And the depreciation reserve at
 11 Hahnemann University Hospital had been
 12 established in a prior period by taking expense
 13 on AHERF's income statement, right?
 14 A. Yeah, the depreciation reserve, the
 15 accounting records, we were trying to get our
 16 property and equipment activity onto an
 17 automated computer system. So, you know, we
 18 had looked at that over a year or so, and it
 19 looked like that depreciation had been
 20 overstated in prior years. So we tried to
 21 estimate what that may be. And to try to firm
 22 that up and make sure that, you know, what some
 23 of our assumptions, whether they made sense or
 24 not.
 25 Allegheny started to have physical

49 (Pages 825 to 828)

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1 inventories of our property and equipment
2 conducted. And I think at one point, Coopers &
3 Lybrand was engaged to start doing physical
4 inventories of our fixed assets.

5 These reserves, we had recorded the
6 depreciation reserves in a separate account.
7 And, you know, based on what we thought, it
8 looked like we had, you know, additional
9 depreciation reserves there.

10 We never, I don't think at least
11 when I was there, we never got everyone up on
12 the system. I don't think Coopers had done all
13 the physical inventories yet and we hadn't
14 transferred all the records in, but that's sort
15 of the background on that reserve.

16 Q. Is it fair to say that as
17 additional information became available to you,
18 for example, physical inventories, you
19 concluded that Hahnemann Hospital had more
20 depreciation reserve than it needed?

21 A. Yeah, well, I don't know if
22 Hahnemann had a physical at that point, but you
23 could get a sense. You do estimates what you
24 think depreciation expense should be versus
25 what's been recorded.

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1 right?

2 A. No. This was within the same
3 obligated group.

4 Q. This was more reclassifying the
5 reserve at the same entity, right?

6 A. That's correct.

7 Q. Let me mark, please, as
8 Exhibit 1094 documents with Bates numbers
9 DC4551, page 1, through DC4554, page 2.

10 - - - - -
11 (Thereupon, Deposition Exhibit 1094
12 was marked for purposes of
13 identification.)
14 - - - - -

15 Q. Now, Mr. Cancelmi, does
16 Exhibit 1094 contain, among other things, a
17 series of documents entitled AHERF Reserve
18 Summary?

19 A. Yes.

20 Q. Also contains a perhaps more
21 legible copy of the memo we just looked at that
22 was Exhibit 43, right?

23 A. Yes.

24 Q. Now, let me focus on the AHERF
25 reserve summaries. These are the schedules of

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1 But I think it was the conclusion
2 at that point we thought there was additional
3 depreciation reserves.

4 Q. So you believed around the time you
5 wrote this memo dated July 3rd, 1997, that that
6 excess depreciation reserve at Hahnemann could
7 be released into income, right?

8 A. Yes.

9 Q. Instead what you did was to
10 reclassify it as a bad debt reserve, right?

11 A. That's correct.

12 Q. And that has the same net effect on
13 the income statement as though you had first
14 released the excess depreciation reserve to
15 income and then taken an expense to establish a
16 bad debt reserve in the same amount, right?

17 MR. TORBORG: Objection.

18 A. Yeah, I guess. I mean we didn't
19 reverse it into income. I don't think we
20 reversed it into income. I just thought the
21 reserve was transferred from the depreciation
22 accounts to bad debt reserve accounts.

23 Q. All right. Not transferred in the
24 same way we've been talking about transfer of
25 reserves between obligated groups, though,

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1 excess reserves that were sometimes referred to
2 within AHERF as the X file, right?

3 A. Correct.

4 Q. That's like the show on TV, the X
5 Files, right?

6 A. No. No. Extra reserve. Extra
7 reserves. I don't know about the show on the
8 TV.

9 Q. But these schedules had the same
10 name as that TV show, right, the X Files?

11 A. I guess.

12 Q. Who first started to prepare X file
13 schedules like these?

14 A. Reserve schedules, I guess our
15 department did. I mean they go back a number
16 of years, I guess.

17 Q. Let me start with the last part of
18 this document. So it's the next to last page,
19 DC4554, page 1.

20 A. Yes.

21 Q. Focusing for a moment just on the
22 typed schedule. This is a version of the X
23 files that shows the reserve balances as of
24 June 30th, 1996 and May 31st, 1997, right?

25 A. Yes.

50 (Pages 829 to 832)